

DIRECT TESTIMONY

OF

HAROLD STOLLER

Director, Safety & Reliability Division

Illinois Commerce Commission Staff

Application pursuant to Section 7-204 of the Public Utilities Act for authority to engage in a Reorganization, to enter into an agreement with affiliated interests pursuant to Section 7-101, and for such other approvals as may be required under the Public Utilities Act to effectuate the Reorganization

Wisconsin Energy Corporation, Integrys Energy Group, Inc., Peoples Energy, LLC, ATC Management Inc., American Transmission Company LLC, The Peoples Gas Light and Coke Company, and North Shore Gas Company

Docket No. 14-0496

November 20, 2014

1 **Q. Please state your name and business address.**

2 **A.** My name is Harold L. Stoller. My business address is 527 East Capitol Avenue,
3 Springfield, Illinois, 62701.

4 **Q. By whom are you employed and in what capacity?**

5 **A.** I am employed by the Illinois Commerce Commission ("Commission") as Director
6 of the Safety & Reliability Division of the Commission Staff.

7 **Q. Please state your educational background and professional experience.**

8 **A.** I obtained a B.A. in 1966 and a J.D. in 1969 from the University of Illinois at
9 Champaign-Urbana. I then received an M.S.B.A. from Boston University in 1979,
10 and I received an LL.M. in Energy and Environmental Law from Tulane University
11 in 1990.

12 I was commissioned in the U.S. Navy in October 1969 as a member of the Navy
13 JAG Corps. I retired from the Navy in August 1990 and joined the Commission
14 Staff in September 1990, serving first as counsel in the General Counsel's office.
15 I spent just over seven years in the General Counsel's office, working primarily
16 with Illinois energy utilities on Illinois issues and on Federal energy matters. I
17 was appointed as Manager of the Energy Division in November 1997 and have
18 remained in that position since then, though the name of the Division was
19 changed to the Safety & Reliability Division in early 2012.

20 **Q. Have you previously testified before the Commission?**

21 **A.** Yes, I have testified on numerous occasions.

22 **Q.** **What is the purpose of your testimony?**

23 **A.** I will identify witnesses for the Staff of the Illinois Commerce Commission (“Staff”) who are providing direct testimony in this case and briefly summarize the positions those witnesses are taking in their direct testimony regarding various provisions of the Public Utilities Act (“Act”) critical to decisions the Commission must make in this docket regarding the application for authority to engage in a reorganization and to enter into an agreement filed by Wisconsin Energy Corporation (“Wisconsin Energy”), Integrys Energy Group, Inc. (“Integrys”), Peoples Energy, LLC (“PELLC”), ATC Management Inc. (“ATCM”), American Transmission Company LLC (“ATCLLC”) (collectively, ATCM and ATCLLC referred to as “ATC”), The Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas Company (“North Shore”) (individually, the “Company” and collectively, Peoples Gas and North Shore referred to as the “Companies” or the “Gas Companies”) (all, collectively, the “Joint Applicants” or “JA”). I will also provide testimony respecting future applicability of Illinois law, regulations, rules, decisions and policies to the utility following conclusion of this docket.

39 **Q.** **Please identify the Staff witnesses who are sponsoring direct testimony in this proceeding.**

41 In addition to me, each of the following witnesses provides direct testimony:

- 42 • Mr. Eric Lounsberry, of the Gas Engineering Section of the Energy
43 Engineering Program of the Safety & Reliability Division ("SRDIV"), is
44 sponsoring Staff Exhibit 2.0.
45
- 46 • Mr. Matt Smith, of the Pipeline Safety Program of SRDIV, is sponsoring
47 Staff Exhibit 3.0.
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- 49 • Mr. David Sackett, of the Economics Program of the Policy Division, is
50 sponsoring Staff Exhibit 4.0.
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- 52 • Mr. Dan Kahle, of the Accounting Department of the Financial Analysis
53 Division ("FAD") is sponsoring Staff Exhibit 5.0.
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- 55 • Ms. Dianna Hathhorn, of the Accounting Department of FAD, is
56 sponsoring Staff Exhibit 6.0
57
- 58 • Mr. Mike McNally, of the Finance Department of FAD, who will be filing on
59 November 26, 2014, is sponsoring Staff Exhibit 7.0.
60

61 **Q. What is Staff's overall recommendation?**

62 **A.** For reasons identified in the summaries below and set forth in the respective
63 testimonies of the Staff witnesses, Staff's recommendation is that the
64 Commission should not approve the reorganization unless certain additional
65 evidence is provided in the Joint Applicants' further testimony and that any
66 Commission approval of the reorganization should contain certain conditions.

67 **Q. Please summarize Staff Exhibit 2.0, Mr. Lounsberry's direct testimony.**

68 **A.** Mr. Lounsberry testifies that the Joint Applicants, based upon the showing made
69 in their Direct Testimony and upon information provided to date in discovery, do
70 not meet the requirement of Section 7-204(b)(1) of the Act. Mr. Lounsberry

71 recommends that the Joint Applicants provide additional information about the
72 PricewaterhouseCoopers (“PwC”) audit of the AMRP and address any PwC
73 recommendations, address and update the appropriate Full Time Equivalent
74 (“FTE”) employee levels for its Gas Utilities and Integrys Business Support
75 Group, provide a commitment regarding capital addition investment levels,
76 separated into specific amounts for North Shore and Peoples Gas (AMRP and
77 non-AMRP levels) for the years 2015 through 2017, and that the Commission
78 should direct the Gas Companies to cease their reporting on Condition #24 from
79 Docket No. 06-0540. Finally, Mr. Lounsberry recommends that the Joint
80 Applicants address his four recommended commitments that address Peoples
81 Gas’ accelerated main replacement program.

82 **Q. Please summarize Staff Exhibit 3.0, Mr. Smith’s direct testimony.**

83 **A.** Mr. Smith recommends that, as a condition of the acquisition, the Commission
84 require Peoples Gas to implement a Pipeline Safety Management System and to
85 move all inside jurisdictional gas facilities to outside, accessible locations within a
86 period of ten years.

87 **Q. Please summarize Staff Exhibit 4.0, Mr. Sackett’s direct testimony.**

88 **A.** Mr. Sackett testifies that the proposed Reorganization is not likely to have a
89 significant adverse effect on competition in those markets over which the
90 Commission has jurisdiction and recommends that the Commission find as such

as required by Section 7-204(b)(6) of the Act because the Reorganization does not impact any of these markets.

Q. Please summarize Staff Exhibit 5.0, Mr. Kahle's direct testimony.

A. Pursuant to Section 7-204(c) of the Act, Mr. Kahle recommends that the Commission rule that any savings from the reorganization flow through to ratepayers and that any costs incurred in accomplishing the reorganization shall not be recoverable from ratepayers. Mr. Kahle further recommends that the Commission require the Gas Companies to identify in future rate filings all costs included in the test period that result from accomplishing the reorganization and demonstrate that such costs are not included in the rate case for recovery.

In addition, Mr. Kahle addresses the appropriate accounting entries related to the reorganization and agrees that if the Securities and Exchange Commission ("SEC") provides the Joint Applicants with an exception to push down accounting, there would be no accounting entries to record on the books of the Gas Companies. However, if the SEC would not provide the exception to push down accounting, Mr. Kahle recommends that the Commission require that any accounting entries made to the books of the Gas Companies for push-down accounting related to the reorganization should be disregarded for ratemaking and regulatory reporting purposes. Mr. Kahle further recommends that the Commission require the Joint Applicants file the determination from the SEC on

e-Docket for this proceeding with a copy to the Commission's Manager of Accounting within ten days of receiving the determination from the SEC if the Joint Applicants have not already filed the determination of its request to the SEC for an exception from push-down accounting in rebuttal or surrebuttal testimonies or in late-filed exhibits prior to an order being entered in this proceeding.

Q. Please summarize Staff Exhibit 6.0, Ms. Hathhorn's direct testimony.

A. Staff witness Hathhorn proposes a plan to enable the Commission to make its findings required by Sections 7-204(b)(2) and 7-204(b)(3), and for approval of the proposed WEC Energy Group Affiliated Interest Agreement, subject to the Commission's conclusions in Docket Nos. 12-0273/13-0612 (Cons.). Based on this plan, Ms. Hathhorn recommends the Commission condition its approval of the transaction upon five conditions.

Please summarize Staff Exhibit 7.0, Mr. McNally's direct testimony.

A. Mr. McNally will testify, in his direct testimony to be filed November 26, 2014 concerning Sections 7-204(b)(4), about whether or not the proposed reorganization will significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure, and 7-204(b)(7), about whether or not the proposed reorganization is likely to result in any adverse rate impacts on retail customers

130 **Q. What is your position with respect to Section 7-204(b)(5) of the Public**
131 **Utilities Act?**

132 **A.** Section 7-204(b)(5) of the Act specifically requires that, in reviewing any
133 proposed reorganization, the Commission must find that the utility will remain
134 subject to all applicable laws, regulations, rules, decisions and policies governing
135 the regulation of Illinois public utilities.

136 **Q. In your opinion, do the Joint Applicants meet the requirements of Section**
137 **7-204(b)(5) of the Act?**

138 **A.** Yes. At page 21 of the Joint Applicants' actual application, the statement is
139 made that that the Peoples Gas and North Shore will each remain Illinois public
140 utilities following the Reorganization and will, therefore, remain subject to all
141 applicable laws, regulations, rules, decisions and policies governing the
142 regulation of Illinois public utilities. (JA Application, 21)

143 Additionally, Section 7-204(b)(5) of the Act is explicitly addressed at page 16 on,
144 lines 341-345 in JA Ex. 1.0, the direct testimony of Mr. Allen L. Leverett,
145 President of Wisconsin Energy Corporation. Mr. Leverett states that the Peoples
146 Gas and North Shore Gas will retain their current names, will continue to operate
147 as Illinois public utilities in their current service areas, will retain their current
148 Illinois headquarters, and will continue to be subject to Commission

149 jurisdiction and applicable Illinois law and regulations.

150 **Q. Does this conclude your prepared direct testimony?**

151 **A.** Yes, it does.